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nFX Corporation

THE COMPANY

In April 1993, Harris & Harris Group, Inc. co-founded *nFX* Corporation, (formerly named Proteus Software), along with Dr. Hoo-Min Toong, Dr. Tomaso Poggio and Mr. Stephen LiBrande, to commercialize a new type of computer software based on proprietary machine learning and neural-like networks technology licensed from the Massachusetts Institute of Technology (MIT) and the Instituto Trentino di Cultura in Italy. The technology has been patented by MIT. In addition, *nFX* has filed its own patents and is preparing new ones based upon enhancements made to the technology. As a leader in developing example-based visual representation, *nFX* revolutionizes the development of graphics and animation with tools that "learn" from a few, simple, 2-D drawings or images to generate new and complex images. Using a small reference set of images, developers create an "Image Network" which can quickly produce new images and create interactive animations. These tools can be of great value to developers of video games, on-line services, desktop publishing software, multimedia authoring tools, user interfaces, educational software and/or home entertainment systems.

RECENT DEVELOPMENTS

The transition to a permanent President and Chief Executive Officer for *nFX* began on May 2, 1995. Mr. Mel P. Melsheimer was installed as interim President and Chief Operating Officer. Ramsey/Beirne Associates was retained to search for a candidate to lead *nFX* into its commercialization phase. The company is in the process of reviewing and interviewing CEO candidates. A first priority of the new CEO will be to develop a new business plan for the commercialization of the technology.

During the interim period while the CEO search is being conducted, product engineering continues to progress according to schedule. The last major release of the software, *nFX Designer 2.0*, was shipped to partners on July 14, 1995 as scheduled. The first release of *nFX Viewer* was completed in late August. The company's engineers are beginning to work on the next major release, *Designer 2.5*.

Toshiba's product groups continue to evaluate the technology for its applicability to specific projects, especially for word processors and ATM machines. Their objective continues to be to enter into a joint development contract to port *nFX* technology to specific Toshiba products under a licensing agreement.

Two groups at Microsoft have invited the company to make a presentation at their Redmond, Washington headquarters. Representatives from these groups were present at a presentation Steve LiBrande gave on the *nFX* technology and were excited about its potential for the Microsoft online network.



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The company is also meeting with Alias/Wavefront on October 18, 1995 to discuss possible collaboration with this division of Silicon Graphics.

The company has agreed on a nondisclosure agreement with Sega which will allow Sega to move forward in evaluating *nFX* technology for its video game platforms.

OWNERSHIP OF *nFX* CORPORATION

Convertible Preferred	Shares
Harris & Harris Group, Inc.	1,787,088
Balance of Convertible Preferred Shares	<u>627,200</u>
Sub-total Preferred	2,414,288
Common	
Dr. Tomaso Poggio	1,049,232
MIT (non-voting)	337,525
Balance of Common Shares	<u>270,955</u>
Sub-Total Common	1,657,712
Total Shares	<u>4,072,000</u>